Why BCE Inc. Should Be a Core Holding in Every Portfolio

Description

Canada's largest telecom **BCE Inc.** (TSX:BCE)(NYSE:BCE) has been garnering some negative headlines concerning its operations, but regardless of that, analysts have recently upgraded their outlook.

This leaves the question for investors: Is now the time to buy BCE?

Now what?

In my view, BCE is one of the best performing dividend-growth stocks in Canada. In fact, after delivering some impressive full year 2014 results, BCE hiked its dividend for the seventh straight year, giving it a tasty and sustainable yield of 5%. This is the sixth-highest yield in the S&P/TSX 60 Index.

These regular hikes also give BCE's dividend a 10-year compound annual growth rate of 7%, which is well above the annual average rate of inflation over that period.

BCE has been able to consistently reward investors with its steadily growing dividend by virtue of its ability to continually grow earnings because of its market-leading franchise and wide economic moat.

For the full year 2014, net earnings grew an impressive 20% year over year, while free cash flow was up by a healthy 7%. These solid results followed the implementation of a range of initiatives aimed at building profitability and improving customer retention. For 2014, the all-important measure of wireless profitability, average revenue per unit (ARPU), for Bell Wireless grew by 5% year over year to $60, while total customers grew by 2.5%.

More impressively, BCE is well positioned to achieve its 2015 guidance and hike its dividend yet again, while keeping its total dividend payout at a sustainable 65-75% of free cash flow.

BCE is also focused on boosting internal efficiencies and cutting costs, while implementing programs to retain customers and actively expand its business. These programs include investing in the deployment of broadband fibre to homes and businesses so as to expand its Fibre TV and high speed Internet network. It is also continuing to invest in boosting network capacity to support increasing

Internet bandwidth usage and mobile data consumption, as well as expanding the reach of its 4G LTE network.

Earlier this month BCE also acquired additional wireless spectrum licences across Canada, increasing its overall network capacity.

There are also whispers that BCE may be moving closer to acquiring struggling regional telecom **Manitoba Telecom Services Inc.** This would significantly boost BCE's customer base and presence in Manitoba, though regulatory hurdles remain a significant barrier to this occurring. BCE would also find itself acquiring Manitoba Telecom's problems, including its underfunded pension plan.

So what?

While BCE maybe facing a range of headwinds that have the potential to affect its short-term performance, the company is well positioned to continue growing earnings over the long term. As these earnings grow, so too will its dividend, as the company maintains its policy of rewarding shareholders. This, in conjunction with its wide economic moat and dominant market position, makes BCE a core holding in any investment portfolio.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

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